

Committee on Ways and Means

H.R. 4388, the *Tax Revision Act of 2005*

H.R. 4388 extends several tax provisions that are scheduled to expire at the end of 2005.

Background

- The *Tax Relief Extension Reconciliation Act of 2005* (H.R. 4297) extends most of the tax provisions that are scheduled to expire this year or in the near future. The bill was reported by the Ways and Means Committee on November 17th, and House consideration is expected soon.
- Reconciliation bills are considered under expedited rules and procedures in the Senate. Certain provisions cannot be considered under reconciliation. For example:
 - Provisions with a spending effect (as opposed to a revenue effect) are prohibited and will cause the bill to lose its reconciliation protection.
 - Provisions that have no budget effect are subject to a 60-vote point of order in the Senate if they are included in reconciliation.
- Because of these budget rules, some expiring provisions were omitted from H.R. 4297 and have been introduced separately in H.R. 4388.

Summary of H.R. 4388

- **Treating Combat Pay as Earned Income under the Earned Income Credit**
 - Under current law, combat pay is ignored for purposes of calculating the Earned Income Credit (EIC). Ignoring combat pay can reduce the EIC in some cases. A special rule gives military personnel the option to include combat pay in the EIC calculation. H.R. 4388 extends this special rule by one year.

- **Transfer of Rum Excise Taxes to Puerto Rico and the Virgin Islands**
 - Under current law, distilled spirits are subject to an excise tax equal to \$13.50 per-proof-gallon. Of the total amount collected on imported rum, \$13.25 per-proof-gallon is transferred to Puerto Rico and the Virgin Islands. H.R. 4388 extends the authority to transfer this amount by one year.
- **Authority for IRS Undercover Operations**
 - Under current law, the IRS has the authority to use income earned by an undercover operation to pay additional expenses incurred in the undercover operation. This authority is extended by one year.
- **Authority for the IRS to Disclose Certain Tax Information**
 - Under current law, the IRS may share certain tax information with certain other Federal and/or State authorities in order to: (1) facilitate combined employment tax reporting, (2) investigate terrorist activities, and (3) facilitate the repayment of student loans that are contingent on income. H.R. 4388 extends this disclosure authority by one year.
- **Allows U.S. Businesses with Branches in Puerto Rico to Claim the Manufacturing Deduction**
 - H.R. 4388 allows U.S. businesses operating as branches in Puerto Rico to claim the domestic manufacturing deduction in 2006. The provision will encourage retention of manufacturing and jobs in Puerto Rico by ensuring fair U.S. taxation of these branches, while Congress awaits reports from the Joint Committee on Taxation and Government Accountability Office so as to evaluate the impact of any possible alternatives to the Section 936 tax credit, which expires at the end of this year.

Budget Effect

FY2006: -\$56 million
 5 Years: -\$153 million
 10 Year: -\$153 million